BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area	))))	Case No. ER-2016-0023

STIPULATION AND AGREEMENT

COME NOW The Empire District Electric Company ("Empire" or "Company"), the Staff of the Commission ("Staff"), the Office of the Public Counsel ("OPC"), the City of Joplin ("Joplin"), the Missouri Department of Economic Development – Division of Energy ("DE"), and the Midwest Energy Consumers Group ("MECG") (collectively, the "Signatories"), by and through their respective counsel, and for their Stipulation and Agreement (this "Stipulation"), respectfully state as follows to the Missouri Public Service Commission ("Commission"):

1. All parties to this rate case proceeding, with the exception of the Midwest Energy Users' Association ("MEUA"), are Signatories to this Stipulation. MEUA has been involved with all settlement negotiations and reached an agreement in principle with the Signatories on all issues. MEUA, however, has not had an opportunity to fully review this settlement document, and, as such, is not a signatory at this time. MEUA will make a separate filing regarding its position, or all parties will submit an amended stipulation as soon as possible.

2. This Stipulation is being entered into solely for the purpose of settling all contested issues in this case. Unless otherwise explicitly provided herein, none of the Signatories shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost of service or valuation determination or cost allocation, rate design, revenue recovery, or revenue-related methodology. Except as explicitly provided herein, none of the Signatories shall be prejudiced or bound in any manner by the terms of this Stipulation in this or any other proceeding.

3. This Stipulation has resulted from extensive negotiations among the parties, and the terms hereof are interdependent. If the Commission does not approve this Stipulation unconditionally and without modification, then this Stipulation shall be void and none of the Signatories shall be bound by any of the agreements or provisions hereof.

4. In the event the Commission accepts the specific terms of this Stipulation without condition or modification, the Signatories waive their respective rights to present oral argument and written briefs pursuant to RSMo. §536.080.1, their respective rights to the reading of the transcript by the Commission pursuant to §536.080.2, their respective rights to seek rehearing pursuant to §536.500, and their respective rights to judicial review pursuant to §386.510. This waiver applies only to a Commission order approving this Stipulation without condition or modification issued in this proceeding and only to the issues that are resolved hereby. It does not apply to any issues not explicitly addressed by this Stipulation.

5. **Admission of Testimony**: The Signatories consent to the admission of and request that the Commission admit into the record in this proceeding the following pre-filed written testimony: Empire Exhibits 1-31; Staff Exhibits 1-24; OPC Exhibits 1-18; DE Exhibits 1-5; Joplin Exhibit 1; MEUA Exhibits 1-3; and MECG Exhibits 1-5.

6. **Total Revenue Requirement:** The Signatories agree that Empire should be authorized to file tariffs designed to increase the Company's revenues by $20,390,000 annually, exclusive of any applicable license, occupation, franchise, gross receipts taxes, or similar fees or taxes, to become effective on September 14, 2016. The Signatories intend to submit specimen tariff sheets within one week.

The Signatories further agree that Staff's billing determinants and current revenues for this case, plus an overall increase of $20,390,000, should be used as the revenue requirement in the setting of rates in this case.

This revenue requirement is based on a return on equity ("ROE") range of 9.5 to 9.9 percent.

This revenue requirement reflects rate case expense calculated pursuant to the sharing mechanism ordered by the Commission for use in Commission Case No. ER-2014-0370 (linking Empire's recovery of rate case expense to the percentage of its rate increase request found or agreed to be just and reasonable).

The electric rates to be established for Empire pursuant to this Stipulation reflect a normalized level of fuel and purchased power costs, which is used to set the fuel adjustment clause ("FAC") base factor.

7. **Depreciation:** Staff's depreciation rates are authorized by the Commission in this case, and the Commission should order Empire to use the depreciation rates as shown in Schedule A attached hereto. Staff's reserve adjustments, attached hereto as Schedules B and C, are recorded on Empire's books reflecting amounts updated through the effective date of new rates. Empire will no longer engage in the process of discontinuing depreciation on assets when reserves are equal to or higher than original costs.

8. **Discontinued Trackers:** As of March 31, 2016, the unamortized regulatory asset balances are as follows:

Vegetation/Infrastructure	$2,182,407
O&M – Iatan Common	$759,080
O&M – Iatan 2	($196,421)
O&M – Plum Point	$110,308

For Vegetation/Infrastructure, $436,481 shall be amortized annually, over a period of five (5) years. For O&M – Iatan Common, $253,027 shall be amortized annually, over a period of three (3) years. For O&M – Iatan 2, ($65,474) shall be amortized annually, over a period of three (3) years. For O&M – Plum Point, $36,769 shall be amortized annually, over a period of three (3) years.

9. **Riverton 12 O&M Tracker:** The Signatories agree that the tracker for Riverton 12 shall continue, with the base set at $2.7 million, Missouri jurisdictional. Given that Riverton 12 was recently converted from a simple cycle to a combined cycle unit, there is no operational history by which to determine an appropriate level of Riverton O&M costs. As such, the parties agree that this is an extraordinary situation that allows for the use of a tracker mechanism. All non-labor O&M shall be tracked (FERC accounts attached hereto as Schedule D). Fluctuations in actual charges above and below the annual level of expense (base) shall continue to be recorded in a regulatory asset/liability account.

10. **Pension/OPEB:** The Signatories request that the Commission authorize the continuation of a tracker mechanism for pension and OPEB expenses. The annual level of ongoing Missouri jurisdictional pension and OPEBs expense is $8,269,970 and $2,683,757, respectively. This includes the actuarially determined expenses for 2015 of $7,664,807 for pensions and $2,731,018 for OPEBs, and the five (5) year amortization of Missouri jurisdictional amounts of $605,163 for pensions and ($47,261) for OPEBs.

The Missouri jurisdictional regulatory asset as of March 31, 2016, is a total of $3,025,815 for pensions and ($236,305) for OPEBs. The prepaid pension asset balance as of March 31, 2016 is $23,314,960, Missouri jurisdictional. The Accounting Standards 715-30 and 715-60 (FAS 87/106) tracker language shall continue in effect.

11. **Solar Rebates:** The following language shall be added to Empire's solar rebate tariff, included in the contract between Empire and the customer, and shall be placed on Empire's website:

Disclaimer: Possible Future Rules and/or Rate Changes
Affecting Your Photovoltaic ("PV") System

> 1. Your PV system is subject to the Commission's current rates, rules, and regulations. The Commission may alter its rules and regulations and/or change rates in the future. If this occurs, your PV system is subject to those changes, and you will be responsible for paying any future increases to electricity rates, charges, or service fees from the Company.
>
> 2. The Company's electricity rates, charges, and service fees are determined by the Commission and are subject to change based upon the decisions of the Commission. These future adjustments may positively or negatively impact any potential savings or the value of your PV system.
>
> 3. Any future electricity rate projections which may be presented to you are not produced, analyzed, or approved by the Company or the Commission. They are based on projections formulated by external third parties not affiliated with the Company or the Commission.

The solar rebate regulatory asset is included in rate base ($6,200,545 as of March 31, 2016) and shall be amortized over ten (10) years, pursuant to the Commission's Renewable Energy Standard ("RES") rule, 4 CSR 240-20.100.

12. **Current DSM / Energy Efficiency:** The Signatories agree that the Company's current Demand Side Management ("DSM") programs will continue to be offered, with the total annual budget for all DSM programs remaining at $1.25 million.

a. The incentive structure for the current Commercial and Industrial ("C&I") program will be modified to a range of $0.06 to $0.10/kWh of first year energy savings, which the Company can adjust to maximize program participation.

b. Remaining DSM portfolio funds for the 2016 calendar year not anticipated to be used by residential programs may be utilized by the C&I program, so that the C&I program will again be made available to customers as soon as possible following Commission approval of this Stipulation.

c. The Company will spend at least 5% of the annual DSM budget on marketing DSM programs other than C&I and will report quarterly marketing expenditures in its quarterly reports to the DSM Advisory Group ("DSMAG").

d. Rates shall be designed so that DSM expenditures will be collected from the Residential and C&I rate groups according to which groups those programs are offered.

e. Current regulatory asset treatment and rate base inclusion for costs will be continued.

f. The Signatories agree that the current DSM programs will be discontinued when the Company's new DSM program tariffs become effective. Pursuant to paragraph 13 below, the new DSM programs shall take effect on January 1, 2017, or as soon as possible after January 1, 2017.

13. **Planned DSM / Energy Efficiency:** The Signatories agree that between the effective date of this Stipulation and January 1, 2017, or as soon as possible after January 1, 2017, they will work together through the existing DSMAG to develop four (4) new DSM programs, namely, a Residential HVAC, a C&I custom rebate, a low-income multi-family, and either a non-low-income multi-family, single family low-income or an on-bill financing program targeted at low-income families.

a. The DSMAG will model these programs to the extent possible on existing programs in the state of Missouri and/or other best practices identified by the DSMAG.

b. Each program developed will include a proposed annual budget, energy and demand savings target(s), and marketing strategy.

c. All programs will have impact and process evaluation, measurement and verification ("EM&V") performed by a third party independent contractor for the first two (2) full programs years at a budget of 5% of the actual expenditures for the two (2) full program years.

d. The DSMAG will investigate Pay As You Save ("PAYS") Financing and similar programs, the feasibility of administering PAYS Financing and similar programs in Empire's service territory, and Empire will arrange for a presentation on PAYS Financing or a similar program at a Commission Agenda meeting.

e. Signatories agree that the Company will implement these or similar programs on January 1, 2017, or as soon as possible after January 1, 2017.

f. Signatories agree that the programs implemented on January 1, 2017, or as soon as possible after January 1, 2017, will have a term of not less than two (2) years.

g. Current regulatory asset treatment and rate base inclusion for costs will be continued as specified in Paragraph 15.

h. If the Commission orders a low-income rate pilot program in this case, the cost of the program will also receive regulatory asset/rate base treatment as specified in Paragraph 15.

14. **DSM Regulatory Asset:** The Signatories agree that Empire will continue amortization of the DSM regulatory asset for costs incurred during the Regulatory Plan, Case No. EO-2005-0263, for a total term of ten (10) years.

15. **DSM Program Costs:** The Signatories agree Empire will continue amortization for the DSM program costs incurred after the end of the Regulatory Plan and prior to any program implementation under MEEIA for a total term of six (6) years.

16. **Low-Income Weatherization:** The Signatories agree that Empire will continue its current low-income weatherization program, with an annual budget of $250,000 (increased from $225,000). If the budget amount is not spent in any given Empire budget year, the balance will roll over to be spent cumulatively with the annual budget amount in the next Empire budget year. On a going forward basis, the low-income weatherization program is not a "demand-side measure" or program for purposes of RSMo. §393.1075.7. Costs for this program are built into and will be recovered through the agreed-upon revenue requirement.

The Signatories agree to a process evaluation ("Evaluation"), to be conducted by an independent evaluator, of the Company's Low-Income Weatherization Program. The Evaluation shall conduct a process review including: (1) the Company and Community Action Agencies' ("CAAs") administration of Company funded weatherization funds, and (2) communication between the Company and CAAs regarding these funds. The Evaluation will identify why funds for Low-Income Weatherization remain unspent, whether barriers exist to full utilization of Company funded weatherization funds, and will recommend solutions to remedy these barriers.

Aside from the above-identified evaluation topics and goals, and the process evaluation topics the evaluator may generally choose to review, the Signatories will develop a list of data to be collected from the CAAs for the process evaluation to analyze potential barriers to program participation.

The Signatories agree that the cost of the low-income weatherization process evaluation should not exceed $15,000, with the cost of the evaluation being funded through the Company's weatherization program funding.

17. **FAC Tariff and Base:** The Signatories agree that Empire should be allowed to continue its FAC, as modified herein. The sharing mechanism shall remain at 95%/5%, and the

transmission percentages shall remain the same (50% of MISO non-administrative costs, 34% of SPP non-administrative costs).

The listing of accounts for costs and revenues flowing through the FAC are attached hereto as Schedule E. Empire shall include in its monthly FAC submission, the FAC costs in each of the general ledger accounts in Schedule E for that month and the twelve months ending that month.

The electric rates to be established for Empire pursuant to this Stipulation reflect a base level of fuel and purchased power costs of $24.15/MWh.

18. **Residential Customer Charge.** The Signatories agree that the residential customer charge will be increased to $13.00.

19. **Rate Design:** There shall be a $3 million revenue neutral shift to the residential class, allocated as follows: -$2 million to GP; -$525,000 to CB; -$340,000 to LP; and -$135,000 to the Praxair class.

After the revenue neutral shifts, the non-energy efficiency overall rate increase will be allocated on an equal percentage basis to all classes except feed mill and lighting.

For the LP class, the volumetric energy charges shall not be increased as part of this case.

The following Small Heating Rate charges should be matched to their Commercial Building counterparts:

a. Customer Charge,

b. Summer First Block Charge,

c. Summer Second Block Charge, and

d. Non-Summer First Block Charge.

The Total Electric Building customer charge should be realigned with the corresponding General Power rate charge.

After these adjustments, including setting the residential customer charge, all remaining rates within each class shall be increased by the same percentage.

20. **Volumetric Rate Design / Block Rates**: Staff, OPC, DE, and Empire agree to work together to develop an analysis regarding responsible energy use as related to residential block rates, with said analysis to be filed by Empire as part of its direct testimony in Empire's next general rate case.

21. **Reporting:** The Signatories agree that Empire should continue to provide monthly quality of service reporting, should continue submitting monthly revenue and usage reports to Staff, and should continue providing the following information as part of its monthly FAC reports (as agreed to in the Non-Unanimous Stipulation and Agreement filed May 12, 2010, in Case No. ER-2010-0130):

a. Monthly SPP market settlements and revenue neutrality uplift charges;

b. Notify Staff within 30 days of entering a new long-term contract for transportation, coal, natural gas or other fuel; natural gas spot transactions are specifically excluded;

c. Provide Staff with a monthly natural gas fuel report that includes all transactions, spot and longer term; the report will include term, volumes, price and analysis of number of bids;

d. Notify Staff within 30 days of any material change in Empire's fuel hedging policy, and provide the Staff with access to new written policy;

e. Provide Staff its Missouri Fuel Adjustment Interest calculation work papers in electronic format with all formulas intact when Empire files for a change in the cost adjustment factor;

f. Notify Staff within 30 days of any change in Empire's internal policies for participating in the SPP; and

g. Continue to provide Staff access to all contracts and policies upon Staff's request, at Empire's corporate office in Joplin, Missouri.

Further, Empire will provide its quarterly FAC report to David Woodsmall, as counsel for MECG.

22. **Cost Allocation Manual ("CAM")**: Within two weeks of the filing of this Stipulation, Empire, Staff, and OPC shall present a jointly proposed procedural schedule in Empire's CAM docket, Case No. AO-2012-0062.

23. **Riverton 12:** The Signatories request that the Commission adopt Staff's recommended in-service criteria regarding the conversion of the existing Riverton Unit 12 simple cycle gas turbine, which went into service in 2007, to a combined cycle gas turbine and find Riverton 12 to be "fully operational and used for service."

24. **True-Up and Briefing:** The Signatories agree that true-up testimony and a true-up hearing in this case are no longer needed and also agree that no post-hearing briefing is needed.

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